

November 5, 2004

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W., TW-A325
Washington, D.C. 20554

Re: *Ex Parte* Notice

In the Matter of Federal-State Joint Board on Universal Service,
CC Docket No. 96-45

Dear Ms. Dortch:

Pursuant to Section 1.1206 (b) of the rules and regulations of the Federal Communications Commission, enclosed for filing is a written *ex parte* presentation filed on behalf of NTCA, dated Friday, November 5, 2005, to Chairman Michael Powell concerning the above-captioned proceeding.

If you have any questions regarding this matter, please communicate with the undersigned.

Sincerely,

/s/ L. Marie Guillory
L. Marie Guillory
Vice President
Legal and Industry

November 5, 2004

The Honorable Michael Powell, Chairman
Federal Communications Commission
445 12th Street, S.W., Room 8-B201
Washington, DC 20554

Dear Chairman Powell:

The entire portfolio of federal Universal Service Fund (USF) programs is facing a politically perilous situation as a result of a recent accounting modification mandated by the Federal Communications Commission (FCC). Your leadership is needed to resolve this issue.

An October 2003 order by the FCC directed the Universal Service Administrative Co. (USAC) to abandon the application of Generally Accepted Accounting Principles (GAAP) to the USF in favor of the federal government's accounting methodology, GovGAAP. Federal auditors subsequently concluded that due to the manner in which funds are committed in the schools and libraries, and rural health care programs, these programs are subject to the Anti-Deficiency Act. These rulings have had adverse, unintended consequences on these programs, and may have similar consequences on the high-cost and low-income programs.

USAC estimates that conversion of its interest-earning funds, required by the Anti-Deficiency Act, will result in a recurring annual loss of \$25 million to \$30 million, causing the USF contribution factor to jump from 8.9% in the fourth quarter of 2004 to 13.25% or more in the first quarter of 2005—a cost that consumers will be forced to bear in the form of higher universal service fees on their monthly bills.

In addition, USAC estimates that if federal auditors conclude that the high-cost and low-income programs also are subject to the Anti-Deficiency Act, the contribution factor could skyrocket to 25% or more. Clearly such increases in the USF contribution factor were not the intention of the FCC when it required USAC to undertake the change in accounting procedures. Nevertheless, this appears to be what may happen, if action is not taken in the near future.

The Honorable Michael Powell, Chairman

November 5, 2004

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These programs are vital to ensuring that all Americans have access to affordable telecommunications services. A drastic increase in the USF contribution factor resulting from accounting modifications would be contrary to the goals of universal service and negatively impact all consumers. It may even cause some consumers to disconnect from the public switched telephone network.

Conversely, if USF support payments to rural, high-cost carriers were withheld to avoid increasing the contribution factor, their ability to maintain their networks and provide quality affordable service could be at risk. This must not be allowed to happen.

In your October 5 letter to Sens. Olympia Snowe and John Rockefeller, you stated that you would welcome the opportunity to work with the senators and their staff on a legislative fix. We urge you to stay true to those words and open a dialogue with legislators on potential remedies that could be adopted when Congress reconvenes later this month.

NTCA is in discussions with members of the House and Senate about a solution, but your leadership is critical. NTCA stands ready to work diligently with you to rectify current and avoid any future unfortunate impacts that this accounting change may cause.

Sincerely,

/s/ Michael E. Brunner
Michael E. Brunner
Chief Executive Officer

MEB:bmo

cc: Commissioner Kathleen Q. Abernathy
Commissioner Kevin J. Martin
Commissioner Michael J. Copps
Commissioner Jonathan S. Adelstein